

**Massachusetts Community College**  
(A Component Unit of the Commonwealth of Massachusetts)  
Notes to the Financial Statements  
June 30, 2001

**I. Summary of Significant Accounting Policies**

**A. Reporting entity**

The Massachusetts Community College (the “College”) is a Commonwealth – supported comprehensive two – year college that offers a quality education leading to associate degrees in the arts and sciences as well as on – year certificate programs. With its primary campus located in Anytown, Massachusetts, along with other satellite campuses, the College provides instruction and training in a variety of liberal arts, allied health, engineering technologies and business fields of study. The College also offers, through the Division of Continuing Education, credit and noncredit courses as well as community service programs. The College is accredited by the New England Association of Schools and Colleges. The College is a component unit of the Commonwealth of Massachusetts and is therefore, generally exempt from income taxes under Section 115 of the Internal Revenue Code.

**B. Financial statements**

The financial statements (i.e., the statement of net assets, the statement of revenues, expenses and changes in net asset and the statement of cash flows) report information on the activities of the College. The effect of interfund activity has been removed from these financial statements.

**C. Measurement focus, basis of accounting, and financial statement presentation**

These financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private – sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board (GASB.) The College has the *option* of following private-sector guidance, subject to this limitation. The College has elected not to follow subsequent private-sector guidance.

Amounts reported as *operating revenues* include: 1) tuition and fees, net of waivers and remissions, 2) federal, Commonwealth, local and private grants and contracts, 3) sales and services of auxiliary enterprises and 4) other sources of revenue. Operating expenses for the College include: 1) instruction, 2) scholarships and fellowships, 3) academic support, 4) student services, 5) operations and maintenance of plant, 6) institutional services and 7) depreciation.

All other activity is *nonoperating* in nature. This activity includes: 1) the Commonwealth's appropriations to the College for operations and the appropriation for fringe benefits of Commonwealth employees, 2) investment income, 3) capital lease payments, 4) capital appropriations and 5) the excess of restricted receipts over revenues.

When both restricted and unrestricted resources are available for use, it is the College's policy to use the restricted resources first, then unrestricted resources as they are needed.

#### **D. Assets, liabilities, and net assets**

##### **1. Deposits and investments**

The College's cash and cash equivalents are considered to be cash on hand, cash held with the Commonwealth's Treasurer and Receiver – General and short – term investments with original maturities of three months or less from the date of acquisition.

Investments for the College are reported at fair value. Any investments held with the Commonwealth's Treasurer and Receiver-General in the Massachusetts Municipal Depository Trust are also at fair value. This investment pool, run by the Treasurer and Receiver – General, operates in accordance with appropriate laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

##### **2. Receivables and payables**

All receivables are shown net of an allowance for doubtful accounts. Accounts receivable in excess of \_\_\_\_\_ days comprise the allowance for doubtful accounts.

##### **3. Inventories and prepaid items**

All inventories are valued at the lower of cost or market using the first-in / first out (FIFO) method. Certain payments reflecting costs applicable to future accounting periods are recorded as prepaid items.

#### **4. *Capital assets***

Capital assets, which include property, plant, equipment and other assets are reported in the statement of net assets generally at cost. Capital assets are defined by the College as assets with an initial, individual cost of more than \$15,000, in accordance with the Commonwealth's capitalization policy. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

College plant assets, with the exception of land, are depreciated using the straight – line method over estimated useful lives, which range from 5 to 30 years.

#### **5. *Students' deposits and unearned revenue***

Deposits and advance payments received for tuition and fees related to the College' summer programs and tuition billed for the following academic year are deferred and are recorded as unrestricted current funds revenues as earned.

#### **6. *Fringe benefits***

The College participates in the Commonwealth's fringe benefit programs, including health insurance, unemployment, pension and worker's compensation benefits. Health insurance, unemployment, pension and worker's compensation costs are billed through a fringe benefit rate charged to the College. Worker's compensation costs are assessed separately based on the College's actual experience.

#### **7. *Compensated Absences***

It is the Commonwealth's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Accrued vacation is the amount earned by all eligible employees through June 30, 2001. The accrued sick leave balance represents 20% of amounts earned by those employees with 10 or more years of Commonwealth service at June 30, 2001. Upon retirement, these employees are entitled to receive payment for this accrued balance.

#### **8. *Commonwealth appropriations***

The College's unrestricted state appropriation is composed of the following at June 30, 2001:

June 30, 2001

Direct appropriations	\$20,888,537
Add: Fringe benefits for benefited employees on the Commonwealth payroll	4,448,066
Less: Day school tuition remitted to the Commonwealth and included in tuition and fee revenue	(1,101,471)
	<u>\$24,235,132</u>

**9. *Comparative data, reclassifications and use of estimates and assumptions***

The financial statements contained herein are not comparative, as the College is implementing GASB Statements 34, 35, 37 and 38, and is not required to do so. As such, certain amounts presented in prior years' data have been reclassified in order to be consistent with the current year's presentation. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**II. Detailed Notes**

**A. Cash and cash equivalents, cash held by Commonwealth Treasurer and Receiver – General and short-term investments**

At year-end, the College's carrying amount of deposits was \$313,165, including restricted cash of \$84,174, and the bank balance was \$647,294. Of the bank balance, \$100,000 was covered by federal depository insurance, or by collateral held by the College's agent in the College's name. Of the remaining balance, all was collateralized by with securities held by the pledging financial institution's trust department or agent, but not in the College's name.

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the College or its agent in the College's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the College's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the government's name.

At year-end, the College's investment balances were as follows:

<u>1</u>	<b>Category 2</b>	<b>2001</b>		<b>Total bank Balance</b>	<b>Carrying Amount</b>
		<u>3</u>			
\$100,000	-	547,294		647,294	313,165

Accounts payable and accrued salaries to be funded from Commonwealth – appropriated funds totaled \$1,112,537 at June 30, 2001. The College has recorded a comparable dollar amount of cash held by the Treasurer and Receiver-General for the benefit of the College, which was subsequently used to pay for such liabilities.

Due to higher cash flows at certain times during the year, the College's investment in overnight repurchase agreements for which the dealer held the underlying securities increased significantly. As a result, the amounts that were held in category 3 at those times were substantially higher than at year-end.

At year-end, the College's investment balances were as follows:

<u>1</u>	<b>Category 2</b>	<b>2001</b>		<b>Pooled Funds</b>	<b>Total fair value</b>
		<u>3</u>			
\$-	2,069,332	-		4,925,536	6,994,868

The investments are held entirely in repurchase agreements.

## **B. Receivables**

Accounts receivable include the following at June 30, 2001:

	<b><u>2001</u></b>
Student accounts receivable	\$53,768
Grants receivable	196,906
Appropriation receivable	---
Other receivables	<u>482,222</u>
	732,896
Less allowance for doubtful accounts	(134,000)
	<u>\$568,896</u>

Federal Perkins Loan Program funds include the following at June 30, 2001:

**2001**

Perkins loans receivable	\$461,688
Less allowance for doubtful accounts	<u>(346,079)</u>
	<u>\$115,609</u>

**C. Capital assets**

Capital asset activity for the year ended June 30, 2001 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$208,827	-	-	208,827
Capital assets, being depreciated:				
Buildings, including improvements	18,127,708	-	-	18,127,708
Furnishings and equipment (including the cost of capital leases)	3,109,568	350,799	-	3,460,367
Books	<u>614,859</u>	<u>-</u>	<u>-</u>	<u>614,859</u>
Total capital assets being depreciated	21,852,935	350,799	-	22,202,934
Less: accumulated depreciation for:				
Buildings, including improvements				
Furnishings and equipment (including the cost of capital leases)				
Books				
Total accumulated depreciation	<u>(15,065,103)</u>	<u>(844,252)</u>	<u>-</u>	<u>(15,909,355)</u>
Total capital assets being depreciated, net	<u>6,787,032</u>	<u>(493,453)</u>		<u>6,293,579</u>
Capital assets, net	<u>\$6,995,859</u>	<u>(493,453)</u>	-	<u>\$6,502,406</u>

**Construction commitments**

The College has active construction projects as of June 30, 2001. The projects include..... (insert text.)

**D. Interfund receivables, payables and transfers**

The composition of interfund balances as of June 30, 2001 is as follows:

Due to / from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>

Advances from / to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>

Due to / from the Commonwealth:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>

Interfund transfers

	Transfer In:				
Transfer Out:	Fund A	Fund B	Fund C	Fund D	Total
Fund A					
Fund B					
Total					

## **E. leases**

### Operating Leases

The College leases space and equipment under noncancelable operating leases. Total costs for such leases were \$86,761 for the year ended June 30, 2001. The future minimum lease payments for these leases are as follows:

Fiscal years ending June 30:	
2002	\$80,408
2003	<u>10,299</u>
Total required minimum lease payments	<u>\$90,707</u>

### Capital Leases

Similarly, the College leases equipment that qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Asset:	
Furnishings and equipment	\$???,>???
Less: Accumulated depreciation	<u>(???,???)</u>
Total	<u>\$??x??</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2001 were as follows:

Fiscal years ending June 30:	
2002	\$343,671
2003	172,646
2004	<u>9,369</u>
Total required minimum lease payments	525,686
Less: amount representing interest	<u>(28,193)</u>
Net obligation under capital leases	<u>\$497,493</u>

#### **F. Long Term Debt**

*N.B. – All Massachusetts State College Building Authority transactions would be reported here.*

#### **G. Segment information**

### **III. Other information**

#### **A. Risk Management and contingent liabilities**

The College is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Commonwealth is self-insured. Various lawsuits are pending or threatened against the College, which arose from the ordinary course of operations. In the opinion of management, no litigation is now pending, or threatened, which would materially affect the College's financial position.

The College receives significant financial assistance from federal and Commonwealth agencies in the form of grants. Expenses of funds under these programs require compliance with the grant agreements and are subject to audit. Any disallowed expenses resulting from such audits become a liability of the College. In the opinion of management such adjustments, if any are not expected to materially affect the financial condition of the College.

The College participates in the Massachusetts College Savings Prepaid Tuition Program. This program allows participants to pay in advance (against a bond) for

future tuition at the cost of tuition at the time of the bond purchase, increased by changes in the Consumer Price Index plus 2%. The effect of this program cannot be determined as it is contingent on future tuition increases and the bond purchasers who attend the College.

**B. Massachusetts Management Accounting and Reporting System (MMARS)**

Section 15C of Chapter 15A of the Massachusetts General Laws requires that Commonwealth Colleges and Universities to report activity of campus based funds to the Comptroller of the Commonwealth on the Commonwealth's Statewide Accounting System, MMARS on the statutory basis of accounting. The statutory basis of accounting is a modified accrual basis of accounting and differs from the information included in these financial statements. The amounts reported on MMARS meet the guidelines of the Comptroller's *Guide for Higher Education Audited Financial Statements*

**C. Related Party – ABCC Foundation, Inc.**

ABCC Foundation, Inc., is an independent non-profit organization and, in accordance with generally accepted accounting principles, its financial statements are not consolidated with those of the College. *NOTE – THIS WILL CHANGE WITH THE AFFILIATED ORGS STATEMENTS DUE IN 2002.*

**D. Subsequent Events**

*ended*